

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY PARIS

C O N F I D E N T I A L STATE 107334

FOLLOWING SENT ACTION TO SECSTATE MAY 7, 1975
FROM VIENTIANE REPEATED TO YOU:

QUOTEC O N F I D E N T I A L VIENTIANE 3072

E.O. 11652: GDS

TAGS: ECON, LA

SUBJECT: ECONOMIC ASSISTANCE TO LAOS

REF: A) VIENTIANE 3018

B) VIENTIANE 2985

C) STATE 103537

D) STATE 100853

BEGIN SUMMARY. DETERIORATING MORALE OF VIENTIANE SIDE IS
FURTHER AGGRAVATED BY DETERIORATING ECONOMIC CONDITIONS.
(COST-OF-LIVING HAS RISEN 34 PCT IN PAST MONTH; DOLLAR HAS
REACHED 2200 KIP.) ONE REINFORCES THE OTHER. WE HAVE
DONE WHAT WE CAN TO LIFT MORALE, WITH VERY LIMITED SUCCESS.
THIS MESSAGE OUTLINES AND ASSESSES A NUMBER OF MEASURES
IN THE ECONOMIC FIELD WHICH PGNU AND U.S. COULD TAKE ON
AN URGENT BASIS IN ORDER TO HELP REDUCE COST-OF-LIVING,
BRING DOWN THE FREE MARKET RATE OF KIP AND BOLSTER LAO
FOREIGN EXCHANGE RESOURCES. WE ARE CONVINCED THAT THESE
MEASURES, IF TAKEN QUICKLY, WOULD ALLEVIATE VERY REAL
ECONOMIC HARDSHIPS IN VIENTIANE AND MIGHT SUSTAIN MORALE.
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IF NOTHING IS DONE, ECONOMIC SITUATION WILL UNDERMINE
STABILITY OF GOVERNMENT. SPECIFICALLY, MISSION RECOM-
MENDS A) LOAN OF 300 TONS OF RICE FOR SALE BY PGNU AND
ENCOURAGE GOVERNMENT TO PURCHASE RICE URGENTLY IN THAILAND

AND SELL IOQLT SUBSIDIZED PRICE; B) OPENING EXCHANGE BOOTH AT MARKET; C) CONTINUE INTERIM FINANCING; AND D) OFFER TO INCREASE U.S. ECONOMIC ASSISTANCE TO LAOS IN CY75 BY \$5 MILLION. END SUMMARY

1. AS REPORTED IN REF A, THERE IS CONSIDERABLE GLOOM ON THE PART OF VIENTIANE SIDE LEADERS ABOUT THEIR OWN AND POLITICAL FUTURE OF THE COUNTRY, CONTINUATION OF COALITION GOVERNMENT AND CONTINUED U.S. SUPPORT. THIS GLOOM IS HEIGHTENED BY SERIOUS DETERIORATION OF THE ECONOMIC SITUATION OVER THE LAST MONTH, OF THE SHARP INCREASE IN COST-OF-LIVING, PARTICULARLY PRICE OF RICE AND SKYROCKETING FREE MARKET RATE WHICH ON MAY 6 WAS REPORTED AT KIP 2,200 TO 1 US\$. WHILE THIS LEVEL IS QUITE CLEARLY THE RESULT OF EFFORTS OF CERTAIN INDIVIDUALS AND MEMBERS OF THE BUSINESS COMMUNITY, PARTICULARLY CHINESE AND VIETNAMESE, TO TRANSFER THEIR ASSETS ABROAD IN A VERY THIN FOREIGN EXCHANGE MARKET, RIGHTLY OR WRONGLY FREE MARKET RATE IS WIDELY PERCEIVED AS A BAROMETER OF ECONOMIC STABILITY. MORE PRACTICALLY, FREE MARKET RATE AFFECTS DIRECTLY COST-OF-LIVING IN VIENTIANE AS MUCH OF CITY'S FOOD IS IMPORTED DAILY FROM THAILAND.

2. WE HAVE THEREFORE REVIEWED VARIOUS ASPECTS OF THE PRESENT SITUATION WITH A VIEW TO IDENTIFYING ACTIONS WHICH PGNU AND U.S. COULD TAKE IMMEDIATELY OR IN THE SHORT RUN TO ALLEVIATE VERY REAL ECONOMIC HARDSHIPS AND WHICH WOULD HAVE AN IMPORTANT POSITIVE IMPACT, BOTH SUBSTANTIVELY AND PSYCHOLOGICALLY. BROADLY SPEAKING POSSIBLE ACTIONS FALL INTO THREE MAIN AREAS: A) ATTACK ON FOOD PRICES AND COL, B) BRINGING DOWN FREE MARKET RATE, AND C) STEADYING AND LIBERALIZING FEOF OPERATIONS. ACTIONS IN ANY ONE OF THESE AREAS WILL OF COURSE HAVE REPERCUSSIONS ON THE OTHERS.

3. ACTIONS TO REDUCE COL

A. THE SINGLE MOST IMMEDIATE ACTION TO REDUCE COL
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WOULD BE SALE OF RICE BY GOVERNMENT SUBSTANTIALY BELOW THE PRESENT PRICE (RICE INDEX DURING APRIL INCREASED BY APPROXIMATELY 40 PERCENT). EFFECT OF SALE OF N. VIETNAMESE RICE ON COL SO FAR HAS BEEN NEGLIGIBLE. REASONS ARE LOW LEVEL OF SALES DUE TO POOR QUALITY WHITE RICE, AND FACT RICE BEING SOLD IS NON-GLUTINOUS RATHER THAN GLUTINOUS WHICH LAO PREFER. NATIONAL RICE OFFICE HAS NO DOMESTIC RICE FOR SALE AVAILABLE, HENCE IMMEDIATE GOVERNMENT PURCHASE OF GLUTINOUS RICE IN THAILAND WOULD APPEAR AS THE ONLY ALTERNATIVE. IN THE MEANTIME USAID COULD OFFER TO LEND ABOUT 300 MT FROM ITS STOCK OF RICE FOR REFUGEES FOR SALE TO GENERAL PUBLIC. WE HAVE ALREADY MADE OFFER TO VIENTIANE SIDE.
B. OPENING OF EXCHANGE BOOTH AT THE MORNING MARKET

WHERE THAI VENDORS COULD CONVERT THEIR SALES PROCEEDS AGAINST BAHT AT 1,200 RATE UPON SUBMISSION OF CUSTOMS PAPERS. THESE SALES (FRUIT, VEGETABLES, MEAT) DO NOT HAVE ACCESS TO FEOF AT THE PRESENT TIME AND KIP PROCEEDS HAVE THEREFORE TO BE EXCHANGED AT THE FREE MARKET RATE AND PRICES ARE SET CORRESPONDINGLY. EXCHANGE FACILITY WAS OPERATED BY BANQUE DE L'INDOCHINE FOR A PERIOD AFTER INTRODUCTION OF DUAL RATE IN 1972 BUT WAS DISCONTINUED BECAUSE EXCHANGE WAS BEING OBTAINED AT 600 RATE WHILE PRICES WERE SET AT 840 AND THERE WERE OTHER ABUSES. DESPITE POSSIBLE SHORTCOMINGS SUCH ACTION AT THIS TIME COULD, IN OUR VIEW, HAVE IMMEDIATE EFFECT IN LOWERING COL AND FREE MARKET RATE.

4. ACTIONS TO REDUCE FREE MARKET RATE

A. MAKE FUNDS AVAILABLE TO COMMERCIAL BANKS WHICH COULD THEN SELL THEM INDIRECTLY IN THE FREE MARKET, BRINGING DOWN THE RATE.

B. DIRECT INTERVENTION IN THE FREE MARKET BY BNL. NEITHER ALTERNATIVE APPEARS VERY DESIRABLE AND BOTH HAVE IMPORTANT DRAWBACKS. BNL INTERVENTION, IN PARTICULAR, WOULD SET A VERY BAD PRECEDENT AND TEND TO DISSIPATE BNL'S FOREIGN EXCHANGE RESOURCES AND REDUCE LAO CONTRIBUTION TO FEOF.

5. STEADYING AND LIBERALIZING OPERATIONS OF FEOF

A. FEOF BALANCE ON MAY 2 WAS \$1.6 MILLION. WE HAVE STATED TO THE GOVERNMENT THAT NO FURTHER U.S. FEOF CONFIDENTIAL

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CONTRIBUTION BEYOND THE \$5 MILLION ALREADY MADE AVAILABLE SHOULD BE EXPECTED UNTIL COMPLETION OF NEGOTIATIONS. WE HAVE \$3.1 MILLION WE CAN PROVIDE FOR BALANCE OF FY75. BELIEVE WE SHOULD NOT CONSIDER CONTINUED INTERIM FUNDING. BNL RESERVES PROBABLY SUFFICIENT TO FUND FEOF FOR BALANCE OF MAY AND JUNE. SINCE NO OTHER DONOR CONTRIBUTIONS ARE LIKELY BEFORE MID-JUNE AT THE EARLIEST, BNL FUNDING WOULD HOWEVER INVOLVE A SIGNIFICANT DRAWDOWN AND HAVE AN ADVERSE PSYCHOLOGICAL EFFECT. FREE BNL RESERVES HAVE DECLINED SINCE END JANUARY LEVEL OF \$9 MILLION TO \$6.3 MILLION BY END MARCH. APRIL FIGURES SHOULD BE AVAILABLE SHORTLY. REASONS FOR DECLINE IN RESERVES ARE INSIGNIFICANT EXPORT EARNINGS IN FEBRUARY AND MARCH, AS WELL AS LOW EMBASSY CONVERSIONS, TOGETHER WITH INCREASE IN OFFICIAL FOREIGN EXCHANGE EXPENDITURES AND LAO CONTRIBUTIONS TO FEOF. RECENT REVISION OF EXPORT PROVISIONS SHOULD BE REFLECTED IN DUE COURSE IN INCREASED EARNINGS BUT NO SIGNIFICANT IMMEDIATE EFFECT LIKELY.

B. FEOF FX SALES IN APRIL WERE \$2.1 MILLION, SAME LEVEL AS JANUARY AND MARCH AND ABOVE FEBRUARY LEVEL OF \$1.7 MILLION. HOWEVER, UNDER THE NEW PROCEDURES ONLY A PART OF FX COST OF APPROVED IMPORT APPLICATIONS IS DRAWN UPON IMMEDIATELY AND ACTUAL APPROVALS AMOUNTED TO \$3.1 MILLION. THIS IS AN ENCOURAGING DEVELOPMENT SINCE IT SUBSTANTIATES GOVERNMENT'S ARGUMENT THAT FX CONTROL SYSTEM INSTITUTED MARCH 31 WILL LEAD TO A MORE LIBERAL APPROVAL OF IMPORT REQUESTS. NEVERTHELESS IN LIGHT OF LIMITED FUNDS AVAILABLE TO FEOF DOUBTFUL WHETHER THIS RATE CAN BE MAINTAINED UNLESS THERE IS AN ADDITIONAL INJECTION OF FUNDS INTO FEOF.

6. THUS AFTER REVIEWING VARIOUS ALTERNATIVES WE CONCLUDE THAT BESIDES MEASURES WHICH THE GOVERNMENT MIGHT TAKE TO IMPROVE ECONOMIC AND THUS POLITICAL CLIMATE IN THE SHORT RUN, INDICATION THAT U.S. IS PREPARED TO CONSIDER AN INCREASE IN ECONOMIC ASSISTANCE TO HELP ALLEVIATE THE IMMEDIATE ECONOMIC CRISIS
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COULD CONTRIBUTE SIGNIFICANTLY TOWARD STEADYING THE PRESENT SITUATION. MIN FINANCE VIEWS ON THE ECONOMIC SITUATION, INCLUDING THIS ESTIMATE OF NEED FOR ADDITIONAL \$15 MILLION (REF B) HAS BEEN WIDELY REPORTED IN LOCAL PRESS. HIS STATEMENT ALSO MAKES VALID POINT THAT WHILE COST OF IMPORTS HAVE SUBSTANTIALLY INCREASED AND VALUE OF U.S. DOLLARS HAS DECLINED IN RECENT YEARS, DONORS' FEOF CONTRIBUTIONS HAVE INCREASED ONLY marginally AND PURCHASES FROM THE PUBLIC (PRIMARILY U.S.) HAVE DECLINED SHARPLY (FROM \$17.6 MILLION IN CY 1973 TO \$7.6 IN CY 1974) AND ARE EXPECTED TO DECLINE FURTHER IN CY 1975.

7. ASIDE FROM IMMEDIATE AND FAVORABLE PSYCHOLOGICAL IMPACT, WILLINGNESS OF U.S. TO CONSIDER INCREASING ITS ASSISTANCE FOR CY 1975 WOULD IN OUR VIEW FACILITATE GOVERNMENT ACTIONS MENTIONED PARA 3 ABOVE AS WELL AS HELP MAINTAIN MORE LIBERAL FEOF APPROVALS, WE HAVE NOT HAD TIME TO CONSIDER IN DETAIL MOST EFFECTIVE WAY IN WHICH INCREASED U.S. CONTRIBUTION SHOULD BE MADE AVAILABLE FOR MINIMUM AMOUNT WHICH WOULD BE REQUIRED TO HAVE SIGNIFICANT IMPACT. OUR PRELIMINARY VIEW IS THAT MINISTER NGON'S REQUEST FOR \$15 MILLION APPEARS SUBSTANTIALLY IN EXCESS OF NEEDS AND \$5 MILLION INCREASE WOULD PROBABLY BE ADEQUATE. IN ANY EVENT, WHILE WE ARE PRESSING FOR EARLY CONCLUSION OF NEGOTIATIONS OF FEOF, WE SHOULD BE PREPARED TO CONTINUE INTERIM FINANCING AND MAKING \$3.1 MILLION AVAILABLE NOW. THIS ACTION WOULD, HOWEVER, HAVE CLEARLY LIMITED AND TEMPORARY EFFECT.

8. FULLY APPRECIATE FUNDING LIMITATIONS AND DIFFICULTIES

OF AID PROGRAM GENERALLY. HOWEVER, WE DO NOT BELIEVE
OUR RECOMMENDATIONS EXCESSIVE; FY 75 PROGRAM ORIGINALLY
PLANNED AT \$55 MILLION HAS BEEN REDUCED TO \$32 MILLION.
NOR DO WE MAKE EXCESSIVE CLAIMS OF WHAT CAN BE EXPECTED.
IF PATHET LAO HAVE MADE CONSCIOUS POLITICAL DECISION TO
TAKE OVER POWER IN IMMEDIATE FUTURE, ECONOMIC MEASURES
WILL NOT STOP THEM. BUT WE ARE ALL QUITE CLEAR THAT UNLESS
SOMETHING IS DONE TO ALLEVIATE PRESENT ECONOMIC CONDITIONS,
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PGNU STANDS LITTLE CHANCE. WE ARE ALREADY DISCUSSING
WITH VIENTIANE SIDE MEASURES THAT COULD BE TAKEN HERE
AND NOW. IT IS EVIDENT THAT ANNOUNCEMENT OF THESE MEASURES,
COMBINED WITH ANNOUNCEMENT OF ADDITIONAL U.S. ASSISTANCE,
WOULD HAVE MAXIMUM POLITICAL AND ECONOMIC IMPACT.

9. WILL REPLY BY SEPTTEL REF C AND D. HOWEVER, DO NOT
BELIEVE THAT NOW IS THE TIME FOR PRESSING AGGRESSIVELY
FOR KP 1,200 RATE FOR U.S. KIP PURCHASES, NOR TO DELAY
SIGNING OF FEOF AGREEMENTS BY INSISTING ON GREATER LAO
COMPLIANCE AND COMMITMENTS, AN APPROACH WHICH WOULD MOST
LIKELY BE COUNTERPRODUCTIVE.

10. ADVISE PRIORITY.
CHAPMAN UNQUOTE KISSINGER

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